



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

FmHA AN No. 1050 (1951)

July 23, 1984

SUBJECT: FmHA Program Management and Servicing Goals
Through March 31, 1985

TO: All State Directors, FmHA

Last year, we issued guidance for making, servicing, and supervision of loans in AN No. 875 dated July 14, 1983. FmHA has made considerable progress in assisting with the financial need of communities and people across rural America. We are pleased to note that the delinquency reduction goals for fiscal year 1984 were met in the Single Family Housing Program. Even though the overall delinquency rate for the Farm Programs was not reduced, all field personnel should be commended for the positive servicing actions carried out with farm borrowers in a very difficult year. Community Programs and Multi-Family Housing Program servicing resulted in the maintenance of a very low delinquency rate. The Business and Industry Program for the first time in several years showed a reduction in the nationwide percent of delinquent accounts as of March 31, 1984. I appreciate your efforts and look forward to a better year as the general economy continues to improve. With the positive results that have come from agency personnel actively servicing and supervising existing loans, we are establishing new servicing goals and providing guidance on loanmaking.

Servicing and Supervision

These functions will continue as our top priority in program management. I am sure each State Director will want to make the most effective and efficient use of our resources as we continue to expend the majority of our time in program supervision and servicing actions. Based on Finance Office information of March 31, 1984, FmHA had an outstanding insured loan principal balance of \$59.1 billion. The information also indicates there was over \$6.1 billion delinquent as of March 31 with 96 percent of this amount in our Farmer Program portfolio alone. FmHA personnel have done a good job in reducing the number of delinquencies from 400,326 last year to 386,333. However, the average amount delinquent has increased significantly from \$12,013 to \$15,790 (over 31 percent). We must devote more attention to the larger dollar delinquencies as those are where our greatest losses can develop. The supervision aspect of our programs is most important in assisting our borrowers to meet their obligations and achieve the purposes for which they were extended credit.

EXPIRATION DATE: June 30, 1985

FILING INSTRUCTIONS: Preceding FmHA
Instruction 1951-A



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Loanmaking

FmHA has been authorized to administer a wide range of financial assistance programs to support the production of food and fiber; provide decent, safe, and sanitary housing; and develop utilities, essential community facilities, and employment opportunities. Each State Director is expected to utilize the available program funds and personnel resources in line with sound loanmaking practices to provide financial assistance to rural areas. This requires coordinating the various programs to compensate for cyclic processing demands of some programs as well as seasonal construction activity. With the majority of our resources being expended in servicing and supervision functions, you must carefully plan and monitor the use of all available resources. This will help assure that loanmaking activities are accomplished in an efficient and timely manner for all of our program areas in utilizing available program funds.

Implementation of our environmental protection objectives contained in FmHA Instruction 1940-G, "Environmental Program", will have a significant impact. Each State Office is expected to provide sufficient training and technical assistance to field staff so that these objectives can be effectively incorporated into loanmaking activities. Since these objectives must be addressed at the earliest stages of preapplication or application review, even greater effort must be placed on planning and completing these reviews well in advance of target dates for allocation of funds.

Property Management

Our inventory numbers are continuing to grow at a modest rate in Single Family Housing, and significantly in farm properties. When operating as a lender of last resort, it is expected that a few borrowers will not achieve their initial objectives. When this happens, we should act quickly to ensure that any resources (land, housing, equipment, livestock, etc.,) the borrower has pledged as security are handled in a timely and responsible manner. FmHA instructions allow various means of accomplishing this goal through sales or leases. A successful program of property management uses a diverse approach coordinated with various elements of the private sector such as contract servicing in accordance with OMB Circular A-76, Performance of Commercial Activities.

Goals

Attached to this AN is material offered as a management tool establishing delinquency reduction goals and providing guidance in the areas of loanmaking, servicing, and property management. We believe the goals are attainable through the use of sound management practices and FmHA servicing and supervision instructions. If we approach the task with a positive attitude of how best to ensure our borrowers are successful, our own objectives will be reached. The following attachments of program management and servicing goals are included:

AttachmentProgram

A	Farmer Programs
B	Single Family Housing
C	Multiple Family Housing
D	Community Programs
E	Business and Industry Loans

Conclusion

We will be monitoring your progress in achieving the goals set forth herein. We expect you to monitor the activities of the offices in your State, identify high delinquency and other problem areas, and utilize available personnel and financial resources to achieve our goals.

A handwritten signature in cursive script, appearing to read "Charles W. Shuman".

CHARLES W. SHUMAN
Administrator

Attachments

FARMER PROGRAMS MANAGEMENT AND SERVICING GOALS
Through March 31, 1985

Introduction

Despite difficult economic conditions, we must continue to exert our best efforts and rededicate ourselves to provide the best possible supervision, servicing, and loan making to farm applicants and borrowers. We are encouraged by predictions of improved farm economy in 1984 and 1985 due largely to the expected positive effects of lower costs of borrowing, reduced inflationary pressures, and improved commodity prices. We anticipate the rate at which farmers have been leaving their farms will bottom out and that the number of foreclosures will not exceed our current levels. Borrowers must be assured that we understand their problems and that we will continue to work with them on a fair but businesslike basis using all of our authorities to help them when their farming operations are feasible.

Loan Servicing and Supervision

The 1985 fiscal year delinquency reduction goals are found on Attachment A, page 7. These goals recognize borrowers' past financial difficulties and, therefore, reflect a very modest reduction in the large number of Farmer Programs' delinquent borrowers. Refer to Attachment A, page 7. We fully expect you to stop and reverse the increasing trends of past years. Our Farmer Programs' delinquency record for 1981, 1982, 1983, and 1984 as of March 31 of each year is as follows:

Percent of Active Borrowers Delinquent
as of 3/31

<u>Program</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
OL	36	38	43	48
FO	16	20	25	28
SW	19	24	31	34
EM	31	41	50	51
EE	30	41	51	54

FmHA personnel will make every effort to help farmers deal with and resolve their financial and production problems. We must ensure that County Supervisors and District Directors fully utilize all appropriate servicing and supervisory tools and skills to enable FmHA to continue with borrowers who can demonstrate the capability of responding positively to our credit counseling, supervision, and servicing efforts.

The following supervisory and servicing techniques must be fully considered and appropriately utilized if borrowers are to realize an improvement in their chances for success:

1. Rescheduling, reamortization, and deferment. Recent court decisions have emphasized the importance of considering these servicing techniques and documenting well the fact that these authorities were given full consideration. Therefore, Form FmHA 1924-14, "Farmer Program Borrower Responsibilities," should be discussed and signed by all applicants and FmHA borrowers who receive a loan. We must also fully comply with the temporary procedures issued as a result of the order in Coleman vs. Block .
2. Annual planning and analysis. A renewed effort must be made to use this essential tool. The nationwide implementation of the "Coordinated Financial Statement" will provide supervisors with the most comprehensive and advanced financial technique available to help analyze farmers' current financial situations and potential for success. This will require counseling and training by County Supervisors in better recordkeeping, improved financial management knowledge and practices for our borrowers including the use of other professionals to assist them.
3. Delinquency and problem case review. The annual Delinquency and Problem Case Review and periodic follow-up servicing actions must be done by State, District, and County Office staffs. FmHA Guide Letter 1960-A-1 should be used to notify borrowers of our position concerning the continuation of financial assistance. Also, Form FmHA 1960-12, "Financial Farm Analysis Summary," is required and must be completed for all delinquent borrowers who will be continuing their farming operations.
4. Supervisory visits. At least two supervisory visits should be made to delinquent and other problem borrowers and to borrowers receiving operating type loans for the year. Livestock and chattels must be inspected annually.
5. Unauthorized disposition of security -- investigations. We have authorized the nationwide use of contractors to investigate the unauthorized disposition of chattel security and thereby improve the accounting for security and the collection of accounts. County Supervisors should be reminded of their responsibility to either approve or report the disposition of chattel security in accordance with FmHA Instruction 1962-A.

6. Collection techniques. Effective collection techniques will increase collections. Use supplementary payment agreements and production assignments in appropriate cases. State Directors that require County Supervisors to send lists of borrowers to business firms find improvement in their collection records. County Supervisors who send timely payment reminders and follow up with phone calls or visits collect more money. A positive attitude and good understanding with borrowers and their families will convey the message that FmHA does care.

Loan Making

The funding levels for Farmer Programs' loans in FY 1985 are expected to be similar to 1984 levels. Each State Director should plan for the most efficient and effective use possible of all allotted funds to assist farmers who can contribute materially to the farm economy and national well-being while providing adequately for their families. Emphasis will be placed on providing the physical resources and the counseling necessary for beginning farmers to build strong, viable farming operations. A special effort must be made to assist minority farmers to improve their operations.

In the initial and subsequent loan making process for all types of farm loans, full use will be made of conventional credit sources. Other lenders will be used to participate to the maximum feasible and FmHA subordinations will be used in lieu of loans whenever possible.

State Directors will take the actions necessary to assure that loans are based on high quality, well-documented realistic farm budgets provided by the applicant with assistance from FmHA when needed. County Supervisors will be encouraged to have applicants and borrowers make full use of the expertise of other agricultural agencies, farm management associations, farm organizations, paid consultants, and any volunteer services that are available, as appropriate, that can assist borrowers to overcome their financial and overall management problems.

FmHA and other appropriate forms may be used in developing operating plans. The forms used and the plans developed must be adequate for analyzing the operator's current situation and potential for success. Soundness of the loans depends upon the adequacy of the planning.

State Directors will assure that all loans are based on realistic and well-documented appraisals, both real estate and chattels, when such appraisals are required. The State Office Farmer Programs staff will provide updated real estate and chattel appraisal training to County Supervisors and other appraisers of farm property. A chattel appraisal instruction now under development will provide needed guidance when issued.

Property Management

The total number of farm inventory properties on hand as of April 30, 1984, was 2,262, an increase of 260 farm properties since the beginning of the fiscal year. The present rate of increase is 22% annually. The challenge that this projected increase presents must be met with innovative management and sale practices. State Office inventory record systems have improved substantially since last year but State Directors must continue to refine and upgrade their inventory management techniques. Some States have begun to utilize their computer and word processing potential to reduce personnel time associated with recordkeeping, manual preparation of reports, posting of information. Follow-up actions with county offices. We recommend that State Directors delegate techniques to save time and improve day-to-day property management. The following areas:

1. State Office recordkeeping.
2. Preparation of critical information designed to meet the specific management needs of the State Director or District Director.
3. To initiate timely follow-up actions with County Offices for:
 - a. Sale progress
 - b. Leasing progress
 - c. Maintenance actions
 - d. Appraisal reviews
 - e. Property classification
 - f. Contract management
4. To identify, evaluate and follow up on program strengths and weaknesses, such as profits or losses, leasing activity or area of rapid inventory increases.

Property Management goals are to:

1. Manage real estate in which FmHA has an interest so as to minimize any downward pressure, real or perceived, on the real estate markets. To achieve this goal, the following actions will need to be taken:
 - a. Analyze the farm real estate markets in each county to determine whether or not sales from inventory will cause a downward pressure on the market.

- b. If analysis leads to the conclusion that sales of inventory property have a high likelihood of causing downward pressure on the market, inventoried farm real estate in those counties will be managed as follows:
- (1) If an eligible loan applicant is interested in purchasing suitable inventory property, it may be transferred to the applicant by credit sale only;
 - (2) If there are no eligible applicants, property will be leased to family farmers;
 - (3) When property is larger than family size and cannot be divided for sale to eligible applicants or leased to family farmers, the property may be leased to larger than family farmers or;
 - (4) If the property cannot be sold or leased as set forth in (1), (2), or (3) above, it will be held in inventory under a caretaker's agreement for the shortest feasible period. See FmHA Instruction 1955.63 (a)(3)(i). All land held in inventory will have conservation practices applied as per as per recommendations of the Soil Conservation Service (SCS).
2. Vigorously explore all possibilities of transfer and assumption or sale by borrower before accepting voluntary conveyance.
 3. Computerize manual recordkeeping tasks and utilize word processing equipment for reports, follow up and other assistance to county offices.

Delinquency Goal Methodology

Every State's delinquency goal is to stop and reverse the increasing trend of recent years and reduce the number of delinquent borrowers. The overall goal is to reduce the number of delinquent borrowers by 2 percent for OL, FO, SW, EM, and EE. For those States with a delinquency above the national average percentage in a loan program, the delinquency reduction goal for that program will be adjusted in accordance with the following table:

<u>Percent Deviation</u> <u>From National Average</u>	<u>Point</u> <u>Adjustment</u>
1-5	1
6-10	2
11-15	3
16-20	4
21 and over	5

For example, a State's EE delinquency rate as of March 31, 1984, was 62

percent, or 8 absolute percentage points above the national EE delinquency rate of 54 percent. The 2-point base would be increased 2 percentage points to 4 percent, thereby making the State's delinquency goal for March 31, 1985, a 4-percent reduction. Translating the 4 percent to numbers of borrowers, we simply multiply the number of delinquent borrowers (1,112) by .04 and arrive at the figure of 44 (44.48) as the number of borrowers we hope your efforts will assist in moving from a delinquent to a current status. A minimum improvement goal of 2 percent or 1 borrower, whichever is greater, has been established.

The data source used is FmHA Report Code 616, "Active Borrowers Delinquent, March 31, 1984."

FARMER PROGRAM INSURED LOAN DELINQUENCY REDUCTION GOALS
Number of Borrowers Through March 31, 1985

STATES	OL		FO		S&W		EM		EE	
	# Del 3/31 1984	Goal 3/31 1985	# Del 3/31 1984	Goal 3/31 1985	# Del 3/31 1984	Goal 3/31 1985	# Del 3/31 1984	Goal 3/31 1985	# Del 3/31 1984	Goal 3/31 1985
Alabama	1216	1167	877	859	81	79	2038	1956	400	380
Alaska	3	2	3	2	0	0	0	0	0	0
Arizona	325	305	250	235	60	56	317	297	214	201
Arkansas	1883	1845	1237	1212	363	355	3070	3008	1172	1148
California	649	623	399	379	151	143	668	647	675	641
Colorado	461	442	457	438	73	67	403	386	518	486
Delaware	38	37	32	31	2	1	40	39	24	23
Maryland	232	227	123	120	9	8	135	132	165	161
Florida	1078	1002	560	526	89	82	1181	1098	600	558
Georgia	2085	1959	1081	1026	293	272	4610	4287	1004	933
Hawaii	49	48	38	37	4	3	25	24	7	6
W. Pac. Terr.	3	2	0	0	0	0	4	3	0	0
Idaho	996	966	886	850	289	277	430	412	1043	1001
Illinois	1689	1655	907	888	103	100	1537	1506	1149	1114
Indiana	1516	1440	1021	990	61	59	1001	980	1401	1330
Iowa	2024	1983	994	974	136	133	1457	1427	1678	1644
Kansas	1010	989	1100	1078	76	74	1216	1191	758	735
Kentucky	1616	1583	890	872	196	192	1058	1036	868	850
Louisiana	2072	2020	599	575	88	84	2627	2495	685	664
Maine	668	654	320	313	7	6	341	317	152	148
Massachusetts	75	73	76	74	5	4	23	22	40	39
Connecticut	43	42	38	37	6	5	14	13	28	27
Rhode Island	9	8	10	9	0	0	2	1	3	2
Michigan	1004	983	696	675	134	131	38	37	855	837
Minnesota	1841	1785	1456	1412	197	193	2147	2061	1639	1606
Mississippi	2730	2593	1528	1482	257	246	4569	4386	636	610
Missouri	2650	2517	2428	2330	989	949	3282	3183	1670	1603
Montana	594	570	510	494	108	104	695	674	406	393
Nebraska	1236	1186	1255	1229	322	315	1750	1715	1554	1507
New Jersey	265	254	159	151	21	19	230	220	41	40
New Mexico	341	327	279	270	54	52	223	214	204	193
New York	765	749	640	627	116	113	1040	1019	745	730
North Carolina	1967	1927	1086	1064	148	143	2557	2505	1317	1277
North Dakota	1412	1383	1638	1572	65	61	2650	2570	1038	1006
Ohio	770	754	529	513	55	53	763	747	476	456
Oklahoma	1786	1732	1487	1457	227	220	1766	1730	1239	1201
Oregon	521	500	376	364	151	146	337	330	421	404
Pennsylvania	655	641	417	408	40	39	257	251	515	504
Puerto Rico	556	544	569	551	39	38	191	187	158	154
South Carolina	878	851	625	606	15	14	1435	1391	305	292
South Dakota	1578	1546	998	978	69	67	2502	2451	1466	1436
Tennessee	1973	1894	1416	1373	46	45	1723	1688	1155	1108
Texas	4798	4558	2013	1932	408	383	5831	5422	1305	1213
Utah	135	132	122	119	18	17	53	51	67	65
Nevada	73	69	59	55	35	33	15	14	68	65
Vermont	61	59	80	78	4	3	8	7	29	28
New Hampshire	11	10	12	11	0	0	1	0	2	1
Virgin Islands	19	17	16	14	7	6	3	2	0	0
Virginia	1158	1111	581	557	3	2	1954	1914	516	495
Washington	461	451	411	398	62	60	222	217	502	491
West Virginia	324	317	166	162	7	6	19	18	59	57
Wisconsin	1037	1016	903	884	69	67	808	791	1092	1070
Wyoming	276	262	193	187	22	21	203	198	176	167
National Totals	51615	49820	34546	33478	5780	5546	59469	57270	32240	31100